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FILE

August 28, 1992

92-135
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Ms. Donna R. Searcy
Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

AUG 28 1992

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: In the Matter of Regulatory
Reform for Local Exchange
Carriers Subject to Rate of
Return Regulation

Dear Ms. Searcy:

Please find enclosed for filing the original and five copies of Taconic Telephone Corp.'s comments in the above captioned proceeding.

Thank you for your assistance in this matter.

Sincerely,

Lorinda Ackley
President

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

AUG 20 1992
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Regulatory Reform for
Local Exchange Carriers
Subject to Rate of Return
Regulation

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CC Docket No. 92-135

COMMENTS OF
TACONIC TELEPHONE CORP.

I. INTRODUCTION

Taconic Telephone Corp. (Taconic) submits the following comments to the Federal Communications Commission (FCC or Commission) regarding "Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation" (CC Docket No. 92-135). The proposed rules, which complement the price cap system, are intended to incent small and mid-sized local exchange companies (LECs) to be more efficient, to encourage technological development, and to reduce administrative burdens.

Taconic, an independent telephone company headquartered in Chatham, New York, serves approximately 21,900 access lines from 11 digitally switched exchanges in upstate New York and part of Hancock, Massachusetts. Our predominately rural franchise area is approximately 600 square miles; 74 miles of fiber optic cable is used for interoffice trunking. Two separate subsidiaries provide cable TV and cellular service. Taconic's 1991 annual revenues were approximately \$15.4 million.

We are very pleased the FCC has decided to issue this Notice of Proposed Rulemaking (NPRM). For several years, Taconic has

welcomed opportunities to reduce administrative burdens; to bring advanced communication services to our customers in a cost-effective and efficient manner; and to increase our direct control over tariff filings.

Taconic is one of the 39 small companies referenced in the NPRM to take advantage of the opportunity to file its own traffic sensitive access tariffs under the Small Company Order (CC Docket 86-467). Our experience using Section 61.39 rules has been positive. Overall, our rates have been consistently lower than NECA rates and the reduced regulatory burdens have allowed us the flexibility to reduce the cost of regulatory compliance.

Though Taconic has always been aware of the relationship investments, costs, and demand have on rates, filing our own traffic sensitive tariff has forced us to be solely accountable for our operational decisions. This responsibility encourages us to make decisions which will ultimately lead to the most efficient network possible. In turn, this allows Taconic to remain competitive in a rapidly changing local exchange market.

Similarly, Taconic filed its own company specific traffic sensitive and non-traffic sensitive rates for intrastate access services with the New York State Public Service Commission (PSC) rather than participate in a voluntary pool. We concur in the terms and conditions of an industry developed state access tariff but supply our own rates. These rates are predicated on base period historical costs and demand and are very similar to the FCC's rules for small telephone companies.

As evidenced by our experiences, Taconic encourages relaxed regulatory requirements for both state and interstate access tariffs for small telephone companies. We approve of alleviating administrative burdens and reducing costs related to regulatory compliance; we support clear incentives to maximize customer use of our network and stimulate demand; and we are in agreement with rulemakings which provide greater independence and flexibility to meet customer needs and respond to competitive pressures. Taconic supports the intent of the regulatory reforms outlined in the NPRM and hereby submits our comments in the above-captioned proceeding.

II. Comments

Historical Cost Tariffs for Small Companies

Given our demonstrated interest in diminished interstate access regulation, we particularly support Option 2 - Historical Cost Tariffs for Small Companies. Option 2 is a natural expansion of Part 61.39 rules as adopted in the Small Company Order and corresponds with our interest in filing our own tariffs every two years in lieu of participating in NECA pools. Developing company specific rates based on actual historical costs has been a positive experience for Taconic and beneficial to our customers. In addition, the administrative burden of submitting detailed filing requirements has been reduced making

it financially feasible for Taconic to more actively participate in the regulatory process. We anticipate more significant relief if Option 2 is instituted by the Commission.

It is notable that the Commission is interested in allowing LECs to file their own Carrier Common Line (CCL) rates. Carriers will then be relieved of the administrative burdens associated with NECA reviews and requirements. Additionally, allowing carriers to select Section 61.39 rules for traffic sensitive and common line rates accomplishes the Commission's objectives of incentive regulation, the reduction and simplification of regulatory burdens, and the assurance of reasonable rates. Our experience filing traffic sensitive rates demonstrates the Commission's 61.39 rules are effective and beneficial for small carriers and their customers.

However, we also encourage the Commission to permit carriers the flexibility to return to both or either traffic and non-traffic sensitive NECA pools since the impact of competition, state-mandated rulings, and technological standards are unforeseeable. Even normal business practices, taken for granted currently, may be negatively affected if LECs are not permitted the flexibility to return to the pools. For instance, small LECs need adequate capital reserves in order to borrow or raise inexpensive capital. If filing tariffs independently adversely affects earnings and subsequently their capital reserves, a small LEC may be forced to borrow at a higher rate, negatively

impacting ratepayers. The opportunity to re-enter either one or both NECA pools best protects the interests of the carrier and its subscribers.

As currently proposed, not allowing carriers to re-enter the CCL pool may actually discourage carriers who have already embraced some regulatory reform (i.e. 61.39 Rules) from accepting even more reform. We encourage the Commission to extend the Part 61.39 rules, which have proved to meet the Commission's objectives, to the re-entry of LECs into the CCL pool.

The Commission sought comments on ways to further reduce and simplify regulatory burdens. We feel the current and proposed rules governing the introduction of new services presents such an opportunity. New services, as defined in FCC Part 61.3 Definitions, are services which have not previously been offered by an individual LEC but may be available elsewhere. We recommend new service rules proposed for the Optional Incentive Regulation Plan be applied to Part 61.39 rules as well. We would, however, suggest some modifications to the Commission's proposed rules as they apply to the introduction of new services. First, if a new service's rate does not exceed the charge imposed by any price cap LEC and its revenue impact is de minimis, as defined by the Commission, the service should be presumed lawful and expeditiously introduced.

Second, subsequent historical cost studies for de minimis new services, as proposed under Option 1, may be contrary to the

Commission's objectives of reducing regulatory burdens for small telephone companies and, therefore, should not be required. Cost studies undertaken for the purpose of developing rates for a de minimis service are an inefficient use of a company's resources. Cost studies will add to the administrative burden of regulatory compliance thereby reducing the incentive to introduce new services.

By supplanting the existing new service rules with these recommendations, we believe the Commission will continue its progressive incentive-based treatment of LECs.

We recognize the Commission's interest in assuring the reasonableness of the Subscriber Line Charge (SLC) rates. However, we feel filing the SLC calculations at the time of the non-traffic sensitive filings and retaining cost support records adequately addresses this concern. Additionally, Taconic believes that by using costs from the most recent twelve month period and by deriving demand by determining the average CCL usage and the percentage growth in usage over the most recent 24 month period, an incentive exists to increase demand.

Finally, we support the Commission's proposals to 1) permit mid-course corrections evaluated by the FCC on a case-by-case basis as stated in the NPRM and 2) to require NECA to file a simplified access tariff containing terms and conditions a small

company can reference when filing their own access rate schedules.

Optional Incentive Regulation Plan

The Commission's goals of minimizing regulatory burdens and maximizing small company efficiencies appear to be met if tariff filings are biennial and mid-course revisions are allowed as proposed under the Optional Incentive Regulation Plan.

If the new revenue generated from a new service is de minimis, or less than two percent of the LEC's total annual operating revenue, it should be presumed lawful and should not be subject to cost support filings at any time. Also, the rate for the new de minimis service should not exceed the charge imposed by any price cap LEC rather than the geographically closest. The LEC will be able to quickly respond to competitive market conditions and customers will have prompt access to new services at reasonable prices.

III. CONCLUSION

Taconic Telephone Corp. strongly favors removing the remaining burdens of regulatory compliance for interstate access tariff filings for small telephone companies. We support the

overall intent of the incentive-based options within the NPRM. However, small companies should retain the right to choose one of the three options which best fits their circumstances.

With regard to the Historical Cost Tariffs Plan for small companies, we request the Commission allow carriers to return to both or either one of the NECA pools. An inability to return to the pools may discourage LECS from otherwise adopting this plan because of the unpredictability of future events that impact their operations.

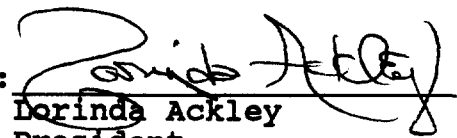
We ask the Commission to consider introducing new services as expeditiously as possible and allowing small companies to base their rates on any price cap LEC's charges for similar services. The use of subsequent historical cost studies to develop rates for new de minimis services should not be required. Regulatory burdens will be lightened and de minimis new services will be available quickly and priced consistently.

Taconic is hopeful the Commission will incorporate these considerations into their final decision on Regulatory Reform for small and mid-sized local exchange carriers.

Respectfully submitted,

TACONIC TELEPHONE CORP.

By:


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